



Legislative  
Research  
Council

# **MINUTES**

## **GOVERNMENT OPERATIONS AND AUDIT COMMITTEE**

**Second Meeting**  
**2003 Interim**  
**July 30, 2003**

**LCR 1 and 2**  
**State Capitol Building**  
**Pierre, South Dakota**

### **Wednesday, July 30, 2003**

The second meeting of the Government Operations and Audit Committee was called to order by Chair Klaudt at 9:00 a.m., July 30, 2003 in the Legislative Conference Room 1 and 2, State Capitol Building, Pierre, South Dakota.

A quorum was determined with the following members answering the roll call: Senators Arnold Brown, J.P. Duniphan, Marguerite Kleven and John Koskan; and Representatives Rebekah Craddock, Margaret Gillespie, Ted Klaudt and Gerald Lange. Senator Garry Moore and Representative Claire Konold were excused.

Staff Members present were Marty Guindon, Auditor General and Rich Hornak, State Government Audit Manager. Annie Mertz, Principal Fiscal Analyst represented the Legislative Research Council.

### **Approval of Minutes**

Representative Lange moved, seconded by Senator Brown, that the minutes of the June 24, 2003, meeting be approved. Motion prevailed unanimously on a voice vote.

### **Single Audit Report Follow Up**

#### **Division of the Gubernatorial**

Marty Davis, Administrative Director for the Governors Office of Economic Development along with John Calvin, Secretary of Tourism and State Development testified before the committee regarding Finding No. 01000200201 in the South Dakota Single Audit Report for fiscal year 2002. Ms. Davis testified that former Governor Janklow had authorized the payments in question and that she had signed the vouchers for these payments. Ms. Davis commented that they have amended the agreements and requested a listing of all the sights and projects. This list was provided to the committee along with a copy of the signed grant agreement and other paperwork relating to the agreement. In response to committee questions, Ms. Davis stated that this project did not go through a competitive bid process and no invoices were received to support payment vouchers other than for the equipment purchase. The money was used for the purchase of an excavator and related operating expenses. The project agreement requires the grantee to be available for projects relating to the Spruce Up Program. The grant agreement is for the period June 1, 2001 through December 31, 2003. The money for this project came from the Future Fund, which is considered a grant program for economic development and research. The Future Fund is composed of fees that come from the unemployment insurance division. There are no future obligations under the current agreement but the project could be renegotiated. Ms. Davis stated that a renewal of the contract will have to come from the Governor's Office. Mr. John Calvin stated that no payments have been made

to the contractor since December of 2002 and the contractor has been operating under grant payments received prior to December 2002.

### **Department of Corrections**

Mr. Scott Bollinger, Director of Operations for the Department of Corrections testified before the committee concerning finding no. 18000200201 in the South Dakota Single Audit Report for fiscal year 2002. Mr. Bollinger testified that when the Department of Correction fights fires, they are not sure if they will be reimbursed for the expenses incurred. Mr. Bollinger stated that typically they stop fighting the fire in one fiscal year and get reimbursed in the next fiscal year, as in this case. The costs associated with fighting the fire were charged to the General Fund. The related reimbursement was deposited in the federal fund rather than the General Fund to take care of a deficit resulting from fighting fires in past years.

Mr. Bollinger stated that beginning January 1, 2004, the Department of Corrections will charge fire fighting relate expenses directly to the Fire Suppression Fund.

In response to committee questions, Mr. Bollinger indicated that the Department of Corrections disagreed with the audit recommendation that the \$33,384 should be deposited in the General Fund since the federal fund had a deficit caused from not being reimbursed for fire fighting expenses in the past.

The committee asked Marty Guindon, Auditor General what problems would be caused if the Department of Corrections did not transfer the funds back into the General Fund as recommended. Mr. Guindon stated that his position is that the money should go back into the General Fund and that he considered the Committee members the arbitrators.

Senator Duniphan moved, seconded by Senator Brown to allow the Department of Corrections to leave the reimbursements in the federal fund. The motion carried on a role call vote (7-1-2). Voting AYE: Brown, Cradduck, Duniphan, Gillespie, Klaudt, Koskan, Lange. Voting NAY: Kleven. EXCUSED: Konold, Moore.

### **Department of Social Services**

Department of Social Services provided the committee with a response to findings no. 08000200201 and 08000200202 in the South Dakota Single Audit Report for fiscal year 2002. Mr. Guindon stated that the Department of Social Services adequately addressed the concerns and the recommendations that were made.

### **Military and Veterans Affairs Update**

Research conducted by the Department of Legislative Audit concluded that a land purchase near Camp Rapid was not addressed during budget hearings with the Legislative Appropriation Committee. The Department of Legislative Audit is still investigating whether the land belongs to the state or federal government. A copy of the deed was provided to the committee.

### **Follow-up Review of Department of Education Fiscal Year 2002 Encumbrances**

Stacy Krusemark from the Department of Education testified to the committee concerning FY 2002 contract encumbrances. Mr. Krusemark provided a handout including each encumbrance and a brief description of each related contract. At the request of the committee, Mr. Krusemark provided a copy

of a grant agreement with the Sioux Falls School District to coordinate an Advanced Reading Enhancement Program. The committee asked if this project was bid. Mr. Krusemark stated that the Sioux Falls School district had the ability to absorb the added administrative requirements of the program.

The committee expressed concern about not having copies of contracts that would provide answers to committee questions. The committee requested Mr. Krusemark to provide more detailed information relating to contracts prior to the next committee meeting and be available at the next meeting to review the contracts.

### **Review of Fiscal Year 2003 Encumbrances**

Two handouts were provided to the committee. The first handout detailed final numbers for the fiscal year 2001 and 2002 encumbrances, including; related expenditures during fiscal year 2003, the unexpended balances, and whether the unexpended balances were reverted or carried forward to fiscal year 2004. The second handout detailed the encumbrances carried forward from fiscal year 2003 to 2004.

### **Review of Consulting Contracts and Space Lease Contracts**

#### **Bureau of Administration, Office of Procurement Management**

Paul Kinsman, Commissioner, Bureau of Administration, provided the committee with an overview of the proposed procurement management process for the new Office of Procurement Management. Mr. Kinsman indicated that the office traditionally dealt with goods and not services. The new office will begin looking at the approval process for service contracts. Contracts will be reviewed to ensure that the stated purposes identified in contracts are clearly identifiable (deliverables). The review will consider the use of competitive bidding among qualified service providers. The office has an E-procurement system that allows contractors to pre-certify based on the types of services they provide. This feature is not being used for service contractors but plans are to expand this feature to include service contracts.

#### **Department of Corrections**

Scott Bollinger, Director of Operations for the Department of Corrections provided an overview of the department's consulting contracts that exceeded \$100,000 and office space lease contracts. A handout was provided that included the consultant/contractor, services provided, contract period, maximum payment and the basis for payments on the contracts.

#### **Department of Social Services**

James Ellenbecker, Secretary and Darla Mayer, Division Director of Management Services for the Department of Social Services provided an overview of the department's consulting contracts that exceeded \$100,000 and office space lease contracts. Patricia Monson, Program administrator, gave an overview of Child Care Provider contracts and Virgena Wieseler, Program Administrator gave an overview of Foster Care contracts. A handout was provided that included the consultant/contractor, services provided, contract period, maximum payment and the basis for payments on the contracts.

#### **Bureau of Information and Telecommunications**

Otto Doll, Commissioner of the Bureau of Information and Telecommunications (BIT) provided an overview of the bureau's consulting contracts that exceeded \$100,000 and office space lease contracts. Denise Luckhurst, Development Director for BIT gave an overview of the Health systems and Human Services systems contracts. Dennis Nincehelter, Telecommunications Director gave an overview on the use of prison labor for wiring projects. A handout was provided that included the consultant/contractor, services provided, contract period, maximum payment and the basis for payments on the contracts.

### **Next Meeting**

The committee identified the following topics for discussion at the next meeting.

- Department of Education Encumbrances
- Update on expenditures relating to fiscal year 2004 encumbrances
- Review updated Executive Salaries List
- Review fiscal year 2003 audit findings issued through August 2003
- Update from the State Auditor
- Update from the Office of Procurement Management
- Report on space lease contracts
- Presentation from the State Comptroller on the function of his position
- Discussion on reporting to the Social Services and Corrections Agency Review Committees
- Status of the Governor's mansion project
- Review the report of the Juvenile Corrections Monitor

The next meeting date was tentatively scheduled for September 8 and 9, 2003.

Representative Lange moved, seconded by Senator Koskan, that the committee adjourn. Motion prevailed unanimously on a voice vote.

The committee adjourned at 5:00 p.m.



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